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RETIREMENT INCOME

1984 Pension Law Will Help Some Widows but Not the Poorest

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The Honorable Lloyd Bentsen
Chairman, Joint Committee on Taxation
Congress of the United States
Chairman, Committee on Finance
United States Senate

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives

The Honorable Edward M. Kennedy
Chairman, Committee on Labor and Human
Resources
United States Senate

The Honorable Augustus F. Hawkins
Chairman, Committee on Education and Labor
House of Representatives

This report was prepared in partial fulfillment of the requirement under the Retirement Equity Act of 1984 ~~(P.L. 98-397, Sec. 304)~~ that GAO study the effects of federal pension legislation on women and report the results to your Committees. The report analyzes the potential effects on widows' income of the spousal consent provision of the Retirement Equity Act. This provision requires that a married participant in a private pension plan obtain the spouse's consent before choosing a payout option that does not provide survivor benefits for the spouse.

We are sending copies of the report to other interested congressional committees. Copies will also be made available to others who request them.

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Senior Associate Director

Executive Summary

Purpose

Although the economic status of the population age 65 and over has improved substantially in the past 25 years, elderly widows continue to have a high risk of being poor. Before 1984, workers retiring with monthly income from private pensions could choose unilaterally not to provide survivor benefits for their spouses. Under the Retirement Equity Act of 1984 (REA), many private pension plans must provide survivor benefits unless spouses waive their right to such a benefit.

REA requires that GAO study the effect of federal pension legislation on women and report to five congressional committees. For this review, GAO investigated the potential of the spousal consent requirement for improving the economic status of future widows. GAO's principal objectives were to determine (1) how many wives could gain entitlement to survivor benefits as a result of REA; (2) before REA, what economic circumstances seemed to influence whether survivor benefits were selected; (3) how much additional income wives could receive from survivor benefits; (4) whether many of those most vulnerable to poverty will be helped by increased access to survivor benefits; and (5) to what extent increased access to survivor benefits will lessen widows' dependence on social security.

Background

Typically, pension plans offer the choice of several payout options when a worker retires. A single-life annuity pays benefits only during the worker's lifetime. The joint and survivor annuity provides pension benefits during the lives of both the retired worker and a surviving spouse. Because the payout period of the joint and survivor benefit is expected to be longer, the pension amount during the worker's lifetime is usually lower than what he would receive from a single-life annuity.

Because the full effect of REA's rule changes cannot be measured for many years, GAO assessed its potential impact on widows by analyzing data from the Social Security Administration's 1982 New Beneficiary Survey. This contains data on pension receipt and survivorship elections for a sample of over 5,000 married men who began receiving social security benefits in 1980-81, before REA's enactment.

Results in Brief

GAO estimates that in 1980-81, 100,000 newly retired men chose not to provide a private pension survivor benefit for their wives. If REA's spousal consent requirement had been applicable, their wives would have had the opportunity to gain entitlement to survivor benefits, and the proportion of wives potentially entitled to survivor benefits would

have increased 17 percentage points, from 26 to 43 percent. The actual gain probably would have been smaller; some wives might have agreed not to receive survivor benefits because they believed that the decision was economically sound.

GAO's analysis shows that before REA, the larger the survivor benefit and the greater its importance as a potential source of income for the widow, the more likely the husband was to have elected it.

If all of the men who did not elect survivor benefits had done so, the median survivor benefit would be about $142 per month for all wives and $68 per month for those in the lowest third of the income distribution, according to GAO's estimates. While the increased access to survivor benefits from private pensions would increase the income of elderly widows, it would have a negligible effect on their poverty rate because, judging from the survey, those widows most likely to become poor had husbands who lacked pensions.

Even if they gained access to survivor benefits from private pensions, most low- and middle-income wives would continue to depend on social security benefits as their major source of income in widowhood.

GAO's Analysis

Many Wives Unaffected by Changes in Survivor Benefit Rules

Of the wives of recently retired men in the 1982 study, an estimated 35 percent had husbands without pensions, 18 percent had husbands with public-sector pensions, and 4 percent had husbands with other pensions not covered by REA survivorship rules; 26 percent of wives were already entitled to survivor benefits. The remaining wives (17 percent) could have gained entitlement to private pension survivor benefits had REA been in effect.

Pension Size Affects Survivor Benefits Choice

About 45 percent of husbands whose pensions were less than $200 per month elected survivor benefits, compared with over 90 percent of men with pensions of $1,000 or more. Men with lower incomes and men whose wives had pensions of their own were less likely to elect survivor benefits.

Survivor Benefits Important for Some Widows

Of women whose husbands did not elect survivor benefits, one-third would receive survivor benefits of more than $200 per month had their husbands elected the minimum benefit required by REA. But about 36 percent would receive less than $100 per month.

Middle-income wives could have the largest percentage gains in income under REA. Their median survivor benefit would be about $160 per month, representing an increase in their income in widowhood of about 22 percent, according to GAO's estimates. In comparison, low-income women would receive an additional $68 per month—a 12-percent increase. Even these relatively small income gains could contribute to the economic security of some widows who would otherwise have incomes only slightly above the poverty line.

Survivor Benefits Will Not Solve Poverty Problem

Increased access to survivor benefits would have little effect on the poverty rate among widows, according to GAO's estimates. Even without survivor benefits, few women whose husbands had private pensions would become poor after widowhood. Poverty would be highly concentrated among women whose husbands lacked pensions.

Social Security Benefits Continue to Be Important

Even if they gained survivor benefits from private pensions, low-income wives would receive about 80 percent of their income from social security benefits after widowhood; middle-income wives would receive about 60 percent. Social security benefits would assure that most of these wives, as well as the majority of those whose husbands lacked pensions, would not fall into poverty as widows. Poverty rates would increase if cost-of-living increases in social security benefits were not maintained.

Recommendations

GAO is making no recommendations.

Agency Comments

GAO did not obtain formal agency comments on this report. GAO discussed its contents with officials from the Social Security Administration and the Department of Labor's Pension and Welfare Benefits Administration, however, and incorporated their comments where appropriate.

Contents

Figures

Abbreviations

CPS	Current Population Survey
ERISA	Employee Retirement Income Security Act
GAO	General Accounting Office
J&S	joint and survivor annuity
NBS	New Beneficiary Survey
REA	Retirement Equity Act of 1984
SSA	Social Security Administration

Introduction

Improving the retirement income of widows by increasing their access to survivor benefits from their husbands' pension plans has been one goal of federal pension legislation. Although the economic status of the population age 65 and over has improved substantially in the past 25 years, elderly widows continue to have a high risk of being poor. One reason for reduced income after widowhood is that some widows do not continue to receive benefits from their husbands' employer-sponsored pension plans. The Retirement Equity Act of 1984 (REA) required that private pension plans that offer annuities automatically provide survivor benefits unless the spouse signs a consent form waiving rights to the benefit.

The purpose of our review was to estimate how many wives could gain access to survivor benefits under REA and to determine the potential effects on the income of widows of improving their access to survivor benefits.

Retirement System Has Reduced Poverty Among Elderly

The retirement income system in the United States has been described as a three-legged stool. The social security system, established in the 1930's, was intended to provide a base of retirement income that would be supplemented by employer-sponsored pensions and personal savings. As social security benefits became more generous and pension coverage more widespread, the economic status of the elderly population improved substantially. In 1959, over one-third of persons age 65 and over were poor—had incomes below the official poverty line—but by 1986 only 12 percent were poor.[1]

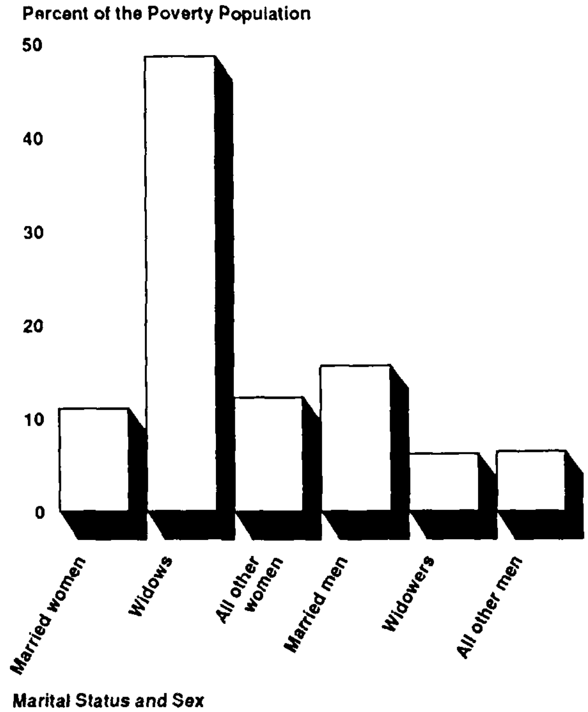
Elderly Widows at High Risk of Being Poor

In spite of the improving economic status of the elderly population as a whole, certain groups of elderly still have high risks of being either poor or nearly poor. In 1986, 22 percent of nonmarried women age 65 and over were poor, and 34 percent had incomes that were less than 125 percent of the poverty line;[2] 21 percent of widows, 25 percent of divorced women, and 20 percent of never-married women were poor as compared with 6 percent of married women. The large number of poor widows—about 1.7 million in 1986—makes this group of special concern. In fact, widows constitute nearly half of the poverty population age 65 and over (see fig. 1.1).

[1] In 1986, the federally defined poverty line was $5,255 for a single person age 65 or over and $6,630 for a two-person household.

[2] In 1986, 125 percent of the poverty level was $6,569 for a single person age 65 or over.

Figure 1.1: Composition of the Population Age 65 and Over Below the Poverty Line, by Marital Status and Sex (1986)



Source: Current Population Survey, Bureau of the Census

Nearly 80 percent of the widows in poverty were not poor before their husbands died, according to one recent study that used longitudinal data collected between 1967 and 1979.[3] On average, women who became poor were not as well off financially during their husbands' lifetimes as women who did not become poor. According to the study, women generally had less income after widowhood than before because they (1) received less in social security benefits than they had as a couple and (2) lost the income from their husbands' pensions.

Types of Pension Benefits

Pension plans can be classified into two types, defined benefit and defined contribution, which are subject to different rules about the form in which benefits are paid and how the amount to be paid is computed. In a defined benefit plan, the employee receives a specified benefit at

[3] See Michael D. Hurd and David A. Wise, The Wealth and Poverty of Widows: Assets Before and After the Husband's Death, National Bureau of Economic Research, Working Paper No. 2325, 1987.

retirement, usually based on salary and years of service. Defined contribution plans do not guarantee a specified pension at retirement. The employer's contribution is usually determined by formula, but the eventual payout to the employee is determined by the amount contributed and the investment performance of the account held for the employee.

At the time of retirement, both defined benefit plans and defined contribution plans may offer a variety of payout options:

- A single-life annuity pays benefits at regular intervals (usually monthly) until the death of the retiree. In this case, the surviving spouse receives no income from the retired worker's plan even if the worker should die shortly after retirement.[4]
- A joint and survivor annuity (J&S), in contrast, provides benefits during the life of the retired worker and continues to pay benefits during the life of the surviving spouse. The survivor benefits are commonly 50 percent of the retired-worker's benefits, but many plans offer other options up to and including 100 percent survivor benefits.
- A life annuity certain and continuous (which we here refer to as a "life certain") provides benefits during the life of the retired worker but also guarantees benefits for a stated period, usually 5 or 10 years. If the retired worker dies before this period ends, his or her named beneficiary continues to receive payments for the balance of the period. If the retired worker dies after the end of the stated period, there is no survivor benefit. This benefit option provides the surviving spouse only short-term protection.

Selecting either the J&S or the life-certain option usually reduces the benefit the retired worker would have received under a single-life annuity by an amount sufficient to cover the estimated cost of providing benefits during the additional years needed for survivor protection. For example, a pension plan might reduce the pension benefit by 13 percent to provide a 50-percent survivor benefit for a spouse who was 3 years younger than the retired worker.

Some defined contribution plans do not offer annuities but instead pay out the entire amount accumulated in the worker's retirement account in a single lump sum when the worker retires or leaves the company. Some

[4]This form of single-life annuity is referred to as a straight-life annuity. Single-life annuities sometimes contain a provision for a refund of contributions if death occurs before the amount contributed has been paid out.

defined benefit plans also may offer a lump-sum payout as a possible option.

No Pension Income for Most Elderly Widows

Elderly widows are much less likely than married couples to receive income from employer-sponsored pensions. In 1986, 53 percent of couples age 65 and over received income from private or public pensions as compared with 27 percent of widows. Of elderly married couples, 38 percent had private pensions and 20 percent had government pensions; the comparable figures for widows were 15 and 13 percent.[5]

One reason for the difference in pension receipt between married couples and widows is that the husband's pension stops with his death. Either the husband did not choose to provide a survivor benefit, or his pension plan may not have offered a survivor benefit option, particularly if he retired before 1974 (see p. 13).

A detailed source of information on the types of benefits chosen by married men comes from the Survey of Private Pension Benefit Amounts, which is based on a stratified random sample of all private pension plans in the United States in 1978.[6] According to this survey, about 37 percent of married men who began receiving a defined benefit pension in 1978 chose a single-life annuity and another 4 percent chose a lump sum payment, as shown in table 1.1. A total of 59 percent chose some form of survivor protection; 42 percent elected a J&S benefit and 17 percent a life-certain option.

[5] Some couples (or individuals) received both private and public pensions; therefore, the percentage receiving any kind of pension was smaller than the sum of the private and public pension percentages.

[6] This survey was conducted by Arthur Young and Company under a contract with the Department of Labor. A detailed description of the data base and the sampling methodology may be found in U.S. Department of Labor, Findings From the Survey of Private Pension Benefit Amounts, 1985.

Table 1.1: Types of Benefit Chosen by Married Men With Private Pensions, by Data Source and Retirement Date

Figures are percentages

	Data source			
	Survey of Private Pension Benefit Amounts[a] (retirement date,	New Beneficiary Survey[b] by retirement date		
Type of benefit	**1978)**	**Before 1974**	**1974-78**	**1979-82**
J&S	41.5	[c]	[c]	[c]
Life certain	17.4	[c]	[c]	[c]
Total with survivor protection	**58.9**	**22.5**	**54.4**	**60.8**
Single life	37.2	71.4	42.1	33.4
Lump sum	3.9	6.0	3.6	5.8
Total with no survivor protection[d]	**41.1**	**77.5**	**45.7**	**39.2**
Total[d]	**100.0**	**100.0**	**100.0**	**100.0**

[a]Calculated from a tabulation of benefit options by John A. Turner in "The Economic Risk of Long Life: Is Mandatory Survivor Insurance Needed?" Economic Inquiry (forthcoming, 1988). Includes only defined benefit plans.

[b]For comparability, includes only pensions described as "regular pensions" that began at age 55 or later. Excludes profit-sharing and other plans that are often defined contribution plans offering only lump-sum payment options.

[c]Breakdown not available.

[d]Numbers may not sum to total due to rounding.

More recent information on survivor benefit elections comes from the New Beneficiary Survey (NBS) sponsored by the Social Security Administration (SSA) in 1982 (see table 1.1.). The question[7] asked on this survey did not allow us to distinguish between the election of a J&S and a life certain. Among men retiring between 1979 and 1982, 61 percent indicated that they had elected an option with a survivor benefit (either a J&S or life certain), 33 percent a single-life annuity, and 6 percent a lump-sum payment. These figures are not substantially different from the 1978 figures. But men who began receiving benefits in 1974 or later were much more likely to report choosing survivor benefits than men who retired earlier. Of men who retired before 1974, over three-fourths reported that their wives would not receive survivor benefits. This increase in survivor benefit elections after 1974 may be due in part to the enactment of the Employee Retirement Income Security Act (ERISA) in that year.

[7]"If you should die tomorrow would your wife be able to receive monthly or other regular payments from this plan either then or in the future?" If the respondent had chosen a life certain that had not yet exceeded its stated period, he should answer yes to this question, as would a person who selected a J&S.

Federal Pension Legislation Affecting Survivor Benefits

Improving the economic status of elderly widows by increasing their access to survivor benefits has been one goal of federal pension legislation. Three major laws affecting survivorship rules have been enacted in the past 14 years:

Employee Retirement Income Security Act of 1974

Before 1974, private pension plans often did not offer survivor benefits. In order to remedy this situation, ERISA required most private pension plan sponsors to offer, at a minimum, a 50-percent J&S annuity to retirees. Participants had to affirmatively opt out of the J&S if they wanted pension benefits that covered only their own lives; spousal consent was not required. Plans in which the normal form of benefit was a life annuity or in which the participant elected a life annuity were subject to these rules.

Retirement Equity Act of 1984

During congressional hearings, witnesses testified that ERISA survivorship rules were not adequate to protect the interests of spouses. They said that husbands, in some instances without consulting their wives, chose options that paid higher benefits during their lifetimes, but did not provide for a continuation of benefit payments to their surviving spouses. According to witnesses, sometimes the spouse was not informed of the decision by her husband and was left financially unprepared for his death.

Recognizing marriage as an economic partnership, the Congress sought through REA to bring the spouse into the decision-making process for selecting benefit payment options. Under REA, the retiring worker is required to obtain written spousal consent if a payout option other than the J&S is selected. This rule applies to all defined benefit plans. The rule can also apply to profit-sharing and other defined contribution plans if the participant elects a life annuity form of payment. Public pension plans are not subject to REA.

Civil Service Retirement Spouse Equity Act of 1984

Under the Civil Service Retirement System, a J&S that gives the surviving spouse 55 percent of the retired worker's benefit is the normal form of benefit for married participants. Under the 1984 act, a married participant automatically receives a J&S at retirement unless the employee obtains written spousal consent to do otherwise. Before 1984, spousal consent was not required for choosing another payout option.

Objectives, Scope, and Methodology

REA requires GAO to study the effects of federal pension legislation on women and report the results to the following committees: the House Committee on Ways and Means, the House Committee on Education and Labor, the Senate Committee on Finance, the Senate Committee on Labor and Human Resources, and the Joint Committee on Taxation.

In this report, we looked at REA's changes in rules concerning survivor benefits. Because these changes apply only to participants with private pensions who retired in January 1985 or later, it will be many years before REA's effect on the income of elderly widows can be measured. Determining the types of pension benefits chosen by married men who retired before REA was enacted gives us a baseline for assessing the potential impact of the legislation on improving the economic status of future elderly widows.

Our principal objectives were to determine (1) how many wives could gain entitlement to survivor benefits as a result of REA; (2) before REA, what economic circumstances seemed to influence whether survivor benefits were chosen; (3) how much additional income wives could receive from survivor benefits; (4) whether many of those most vulnerable to poverty will be helped by increased access to survivor benefits; and (5) to what extent increased access to survivor benefits will lessen widows' dependence on social security. We also considered survivor benefits from public-employer pensions.

Description of New Beneficiary Survey

To answer these questions, we used data from SSA's New Beneficiary Survey. NBS gathered information in 1982 from a nationally representative sample consisting of over 18,000 individuals who first began receiving social security or Medicare benefits during a 12-month period from mid-1980 to mid-1981.[8] For our analysis, we selected all married men in the NBS sample who either were receiving social security benefits as retired workers (4,483 cases) or were age 60 or over and receiving social security benefits as disabled workers (657 cases) for a total of 5,140 cases representing 609,000 married men.[9] Throughout our report, we refer to these men as newly or recently retired workers, using the receipt of social security benefits as our definition of retirement. Some

[8] The 12-month period was June 1980-May 1981 for retired workers and spouses and July 1980-June 1981 for disabled workers. The Medicare sample was chosen in a different manner. See Linda Drazga Maxfield, "The 1982 New Beneficiary Survey: An Introduction," Social Security Bulletin, Nov. 1983, 3-11.

[9] We did not include men who were receiving only Medicare benefits because these men had not yet retired.

of these men also began receiving private pensions in 1980-81, a few had begun receiving private pensions at earlier dates, and a few expected to receive private pensions in the future.

NBS obtained information about income from employer-sponsored pensions, social security, assets, earnings, and various other sources for respondents and their spouses for the 3 months preceding the 1982 interview date. The net value of homes, rental property, business property, checking and savings accounts, stocks, bonds, and other assets was also obtained. Participants were asked a series of questions concerning their health and that of their spouses. The NBS database also includes information about each person's social security benefit entitlement taken directly from payment records maintained by SSA.

In addition, respondents and spouses were asked about occupation, industry, earnings, and job tenure on the most recent and longest jobs they had held.[10] NBS sought information on pension coverage on these jobs and whether spouses were entitled to survivor benefits. About 92 percent of NBS married men reporting private pension income had reported having a private pension on one of the jobs covered by the detailed pension questions. The other 8 percent apparently were receiving pensions from a job other than their most recent or longest job; in these cases we have no information on whether the spouse was entitled to a survivor benefit.

The NBS interview questions were developed by SSA. Sample design, interviewing, and data processing and editing were the joint responsibility of the Institute for Survey Research at Temple University and Mathematica Policy Research, under a contract with SSA. All interviews were conducted in person by a staff of more than 600 interviewers who had attended an intensive 3-day training session on using the questionnaire.

Following the interviews, each respondent was sent a validation letter asking for written answers to a few items that could be compared with the completed interviews. Any discrepancies were then investigated by field staff. Data from completed interviews were key-entered, and the resulting computerized database was subjected to a series of range and consistency checks. Data that did not meet specifications were compared with original interviews to find possible keying errors. In some cases,

[10]The survey also asked about the current job for those respondents and spouses who were still employed. Few respondents had pensions on these jobs.

interviewers were asked to recontact respondents to clear up discrepancies or obtain missing information.[11]

As an additional check on the NBS data, we compared them with data from the Bureau of Census' Current Population Survey (CPS). We found close agreement between NBS and CPS on couples' total income and on the percentage of married couples having private pensions (see app. I, table I.1). Reported pension amounts, however, were higher in NBS than in CPS ($5,160 vs. $3,990 on an annual basis).

Analysis of the New Beneficiary Survey

As previously stated, the NBS sample represents a cross section of married men who became eligible for social security benefits in 1980-81. Because census data show that pension receipt and family income change slowly from year to year for the elderly population, we believe that married men retiring in the first 5 to 10 years after REA will not be substantially different in pension receipt and income from men surveyed in NBS.

At some future date, many of the wives of the men surveyed will become a part of the population of elderly widows. To determine the potential effect of REA on wives who would be most vulnerable to poverty if widowed, we divided the NBS sample of married men into thirds, based on their income in 1982. The dividing points were $1,187 per month between the lowest and middle third of the income distribution and $1,848 per month between the middle and highest third. For the sake of brevity, the three groups will be referred to as the low-, middle-, and high-income groups. These terms are used in a relative sense only. In the lowest third, only 13 percent of couples had incomes below the poverty line in 1982. However, according to the research mentioned previously, the great majority of widows in poverty were not previously poor, but tended to have had less income before widowhood than those who did not become poor. Thus, we believe that the majority of wives who will become poor in widowhood will be drawn from this low-income group.

In assessing the potential effects of REA survivorship rules on future widows, we note that some wives are not represented in our sample because their husbands will never receive social security benefits. For

[11] For further details, see SSA, The 1982 New Beneficiary Survey User's Manual, 1986.

reasons described below, these husbands may be less likely to have private pensions. Thus, by leaving them out we may overestimate the proportion of wives who could be helped by the spousal consent requirement of REA.

Not represented in our analysis are those widows whose husbands (1) would never accumulate enough quarters of covered employment to qualify for social security benefits (mainly those employed in public-sector jobs) or (2) would have been entitled to social security benefits had they not died before reaching age 62 or before claiming benefits.[12] Widows in the first group would not be affected by REA legislation because their husbands would be unlikely to have private pensions.[13] Widows in the second group also may be less affected by REA because men who die before reaching age 62 are likely to have lower incomes and less pension coverage than longer-lived men.[14] If they do have private pensions, these men will often be covered by REA provisions for preretirement survivor benefits. We did not assess the effect of these provisions in this review.

We did not obtain formal agency comments on this report because no specific entity has overall responsibility for pension policy matters. We discussed its contents with officials from SSA and the Department of Labor's Pension and Welfare Benefits Administration, however, and incorporated their comments where appropriate.

[12] Widows of men in this latter category would be entitled to social security survivor benefits but would not be represented in the NBS sample of married men.

[13] This group is relatively small. SSA estimates that only 6 percent of men age 65 and over were not entitled to social security benefits in 1986. Social Security Bulletin, Annual Statistical Supplement, 1986, p. 101.

[14] For discussion of the relationship between mortality rates and socioeconomic status, see Steven H. Chapman, Mitchell P. LaPlante, and Gail Wilensky, "Life Expectancy and Health Status of the Aged." Social Security Bulletin, Oct. 1986, pp. 24-48.

More Widows Could Be Entitled to Survivor Benefits

If REA's spousal consent requirements had been in effect when their husbands began receiving pensions, about 100,000 wives of men who began receiving social security benefits in 1980-81 could have gained entitlement to private pension survivor benefits. As a result, the percentage of these wives entitled to survivor benefits could have increased by 17 percentage points, from 26 to 43 percent. The potential increase was smaller for low-income wives because only one-third of their husbands had private pensions. At most, 14 percent of these low-income wives could have gained entitlement to survivor benefits, raising total entitlement to as much as 28 percent.

The actual gain in the number of wives entitled to survivor benefits as a result of REA will probably be smaller than these estimates. Some wives may choose not to receive survivor benefits because this choice is economically sound in their particular circumstances. For example, they may feel that the added income from a single-life annuity is needed for current expenses, or they may have adequate income from other sources. Economic considerations of this kind appear to have been influencing husbands' choices of survivor benefits before REA. Men with small pensions were the least likely to have elected survivor benefits. When the couple's income was low or when wives had their own pensions, husbands were also less likely to elect survivor benefits.

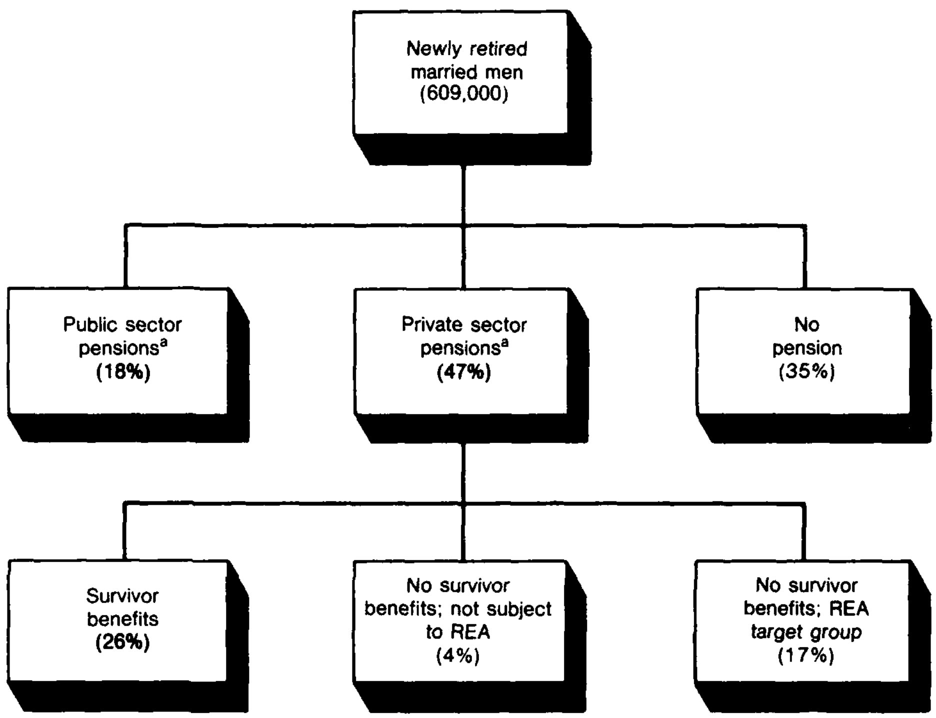
About 17 Percent of Wives Could Gain Benefits

The 1984 REA legislation is targeted toward married men with private pensions who choose not to provide survivor benefits for their wives. By requiring spousal consent, REA sought to ensure that wives would be included in the decision-making process. To judge the potential for REA to increase the receipt of survivor benefits, we looked at the proportion of all newly retired married men (1982) who had not chosen survivor benefits. From this information, we estimated that about 17 percent of their wives (representing about 100,000 women) could have gained entitlement to survivor benefits if REA had been in effect (see fig. 2.1).[1]

If none of the wives had waived her right to a benefit, the percentage of wives entitled to private pension survivor benefits would have increased from the 26 percent already entitled to benefits to 43 percent. This increase represents the maximum impact of REA because about 35 percent of husbands did not have pensions, 18 percent had only public-sector pensions, and 4 percent had private pensions but were not subject

[1]Of these men, 15 percent had chosen single-life annuities, and the other 2 percent had taken a lump-sum payment from their regular pension plan.

Figure 2.1: Pension Entitlement and Survivor Benefit Elections of Married Men Who Began Receiving Social Security Benefits in 1980-81



[a] Includes men receiving a pension or expecting to receive a pension and men who took a lump-sum payment option from a pension.

Source: Estimates calculated from NBS.

to REA. In this last category were men who had received a lump-sum benefit from a profit-sharing or other plan not covered by REA or a lump-sum benefit that was below the level ($3,500) at which spousal consent would be required under REA rules.

Among the 26 percent of men who chose survivor benefits, REA also could lead to an increase in the percentage choosing a J&S benefit covering the husband's and wife's life rather than a life certain, which offers a widow much less protection. We estimate that an additional 8 percent of newly retired men could potentially shift to a J&S from a life certain.[2]

[2] We estimated this by assuming that the percentage of total survivor benefits that were life certains was the same in NBS as that found in the Survey of Private Pension Benefit Amounts (see table 1.1).

Low-Income Wives Least Likely to Gain Survivor Benefits

The number of husbands who did not choose survivor benefits varied across income groups, as shown in table 2.1. In the lowest third of the income distribution, 55 percent of newly retired married men had no pensions and thus would not have been affected by REA. Thirty-four percent were entitled to private pensions, and 14 percent were in the target group without survivor benefits. At a maximum, the proportion of low-income wives entitled to survivor benefits would have increased by 14 percentage points, from 14 to 28 percent, if REA had been in effect.[3] As described below, small pension amounts and low income make it less likely that wives in this group actually would gain survivor benefits.

Table 2.1: Pension Entitlement and Survivor Benefit Elections of Recently Retired Married Men, by Couples' Income (1982)

Figures are percentages

	Couples' income level[a]		
Pension entitlement	**Lowest third**	**Middle third**	**Highest third**
Private pension:			
No survivor benefit (REA target group)	14	21	16
No survivor benefit (not subject to REA)	7	4	3
Survivor benefit	14	30	32
Total private[b]	**34**	**54**	**50**
Public pension	12	19	24
No pension	55	27	26
Total[b]	**100**	**100**	**100**

[a]Monthly income is less than $1,187 for the lowest third; $1,187- $1,847 for the middle third; and $1,848 and over for the highest third.

[b]Columns may not sum to totals due to rounding.

Source: GAO estimates based on NBS data.

The middle third of the income distribution contains the largest number of women who could be affected by the REA survivorship rules, according to projections from the NBS data. In this group, 21 percent of wives could gain survivor benefits. With 30 percent of husbands already choosing survivor benefits, about half of the wives could be entitled to survivor benefits if none waived their rights to them.

Compared with the middle third, fewer husbands in the highest income group would be affected by REA because fewer had private pensions and those who did were more likely to have elected survivor benefits. About

[3]About 7 percent of low-income husbands had elected lump-sum benefits not subject to REA rules. Many of these lump-sum benefits amounted to less than $3,500.

16 percent of these husbands did not elect any kind of survivor benefit and would therefore be in the target group.[4]

No Survivor Benefit May Be Best Choice

As we have indicated, as many as 17 percent of wives could have gained entitlement to survivor benefits if none had chosen to waive their rights to a benefit. But actual increases in survivor benefit elections are likely to be smaller because some individuals may believe electing survivor benefits is not the best choice.

For a couple at the time of retirement, the best use of funds can involve difficult decisions because three possible life stages will need to be considered. First there will be a period of retirement as a couple. In most cases, this will be followed by a period of widowhood for the wife, but a third possibility is a period of widowerhood for the husband. Even if the husband is likely to die first, the length of the retirement period before widowhood occurs is unknown. This consideration is important for allocating retirement income, especially because most private pensions are not automatically adjusted for inflation and thus become less valuable over time. Lacking such adjustment, for example, a pension benefit would lose about one-third of its value in 14 years—the average life expectancy of men at age 65—even at a moderate 3-percent rate of inflation.

Another consideration is how much the single-life annuity will be reduced in order to provide a survivor benefit. Reductions that are actuarially equivalent for the average employee may not be so in individual cases. For example, due to poor health, a wife's life expectancy might be below the average for a woman of her age. In some cases, the wife may not expect to survive her husband. Adequate income while both spouses are alive and for the husband after his wife's death would be more important than providing a survivor benefit that is not likely to be needed. Selecting a single-life annuity might therefore be a better choice than the J&S option.

Other economic circumstances may make it reasonable not to elect a survivor benefit, and wives may agree to the choice of a single-life annuity or lump-sum payout. For example, if the couple's current income is barely adequate, to elect survivor benefits might force them to live close

[4]Among those who elected a survivor benefit in all three income groups, switching from life-certain to J&S benefits could further increase the number of widows actually receiving survivor benefits.

to the poverty line. In such a case, both spouses might prefer more current income to a small amount of protection for some unknown future time. In other cases, the couple may not see a need for benefits. Income from investments, life insurance, or the wife's own pension might appear adequate, and the couple might agree that the additional income available under a single-life annuity would be the best option.

Pension Size an Important Factor in Choosing Survivor Benefits

Our analysis of NBS data showed that size of the survivor benefit and its importance to the widow as a source of income were the most important factors influencing the selection of survivor benefits by workers at retirement. Less important were the couple's current income, assets, and health and whether the wife had her own pension.

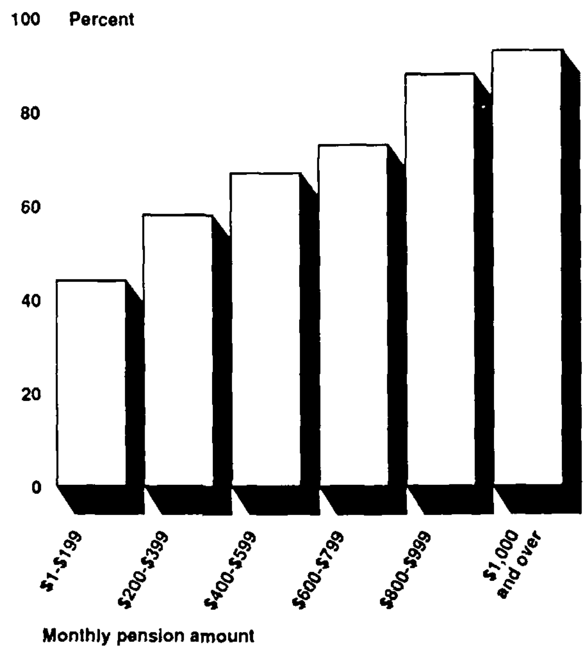
Previous research[5] has also shown that husbands were more likely to choose survivor benefits the higher their level of wealth, the greater the importance of the survivor benefit as a source of income to the widow, and the longer the period of expected widowhood (based on the ages of the two spouses). In addition, men were more likely to choose survivor benefits if their pension plan provided cost-of-living increases or subsidized the J&S benefit (did not reduce the pension by an amount sufficient to cover the cost of the additional years expected for the survivor benefit). Both of these provisions make the J&S option more attractive.

Based on our analysis of newly retired men in NBS, we found that pension size, which influences the size of the survivor benefit that can be provided, was an important influence on the choice of survivor benefits. As pension size increased, the proportion of NBS men electing survivor benefits increased from 44 percent for men having pensions of less than $200 per month to 93 percent for men having pensions of $1,000 per month or more (see fig. 2.2).[6] Election of survivor benefits also increased with income. Of men in the lowest third of the income distribution, 52 percent elected survivor benefits, compared with 60 percent in the middle third and 70 percent in the highest third.

[5]See John A. Turner, "The Economic Risk of Long Life: Is Mandatory Survivors Insurance Needed?" forthcoming in Economic Inquiry, and Karen C. Holden, Richard V. Burkhauser, and Daniel A. Myers, "Pensioners' Annuity Choice; Is the Well-Being of Their Widows Considered?" Institute for Research on Poverty, Discussion Paper No. 802-86, 1986. Both of these studies define wealth to include not only assets but the present value of pensions and social security benefits.

[6]For these analyses, we included only men who were receiving annuities from their pension plans in 1982. Men who previously chose a lump sum and those who had not yet begun to receive benefits as of 1982 were excluded.

Figure 2.2: Percentage of Newly Retired Married Men Choosing Private Pension Survivor Benefits, by Size of Pension
(1982)



Source: GAO estimates based on NBS data

Examining family characteristics of NBS husbands with private pensions, we found that men who elected survivor benefits had, on average, higher incomes and larger pensions than men who did not (see table 2.2). Also, husbands who elected survivor benefits had more assets than those who did not. But men whose wives had or expected pensions of their own were less likely to elect survivor benefits. This suggests that the adequacy of the wife's future income may have played a role in the husband's decision.

Table 2.2: Certain Family Characteristics by Whether Private Pension Survivor Benefits Were Chosen

Dollar figures are median amounts

	Survivor benefit chosen	
Family characteristic	**Yes**	**No**
Couples' income (monthly)	$1,734	$1,544
Pension[a] (monthly)	442	284
Family assets[b]	83,300	63,200
Percentage with characteristic		
Wife had or expected own pension	21	30
Wife's health prevented work	20	24
Husband had serious health condition[c]	46	45
Husband had life insurance	88	86

[a]Actual amounts for men who chose survivor benefits. For men who did not choose survivor benefits, the amount shown is the estimated amount if a 50-percent J&S had been chosen

[b]Including equity in home

[c]Husband reported having a heart condition or cancer

Source: GAO estimates based on NBS data

Based on NBS data, health status did not appear to be important. This may reflect the inadequacy of health indicators on NBS; also the health of either spouse may have changed between the time the survivor benefit was elected and the time of the survey.

Overall, the size of the survivor benefit and its importance as a source of income for the widow had the largest impact on whether a survivor benefit was chosen. By contrast, the current income of the couple was much less important. For example, for couples with a current income of $1,000 per month, we estimated that the probability of choosing a survivor benefit would increase from 46 to 74 percent as the share of the widow's income provided by the survivor benefit increased from 5 to 30 percent. If current income was $3,000 per month, the comparable probabilities of choosing a survivor benefit were only slightly larger—52 and 79 percent, respectively.[7]

Our results support the view that many husbands were influenced by economic considerations, such as the importance of the benefit to their widows, in making survivor benefit choices before REA. We cannot, of course, conclude that wise choices were made in all cases or that the wife's interests were always given sufficient weight. However, when survivor benefits would be small or would provide only a small proportion of their income in widowhood, many wives would probably agree to

[7]Details of the statistical analysis on which these estimates are based may be found in appendix III.

forego a survivor benefit to keep their husband's pension from being reduced during their lives together. Therefore, we believe that the proportion of wives gaining entitlement to survivor benefits as a result of REA will be smaller than our 17-percent maximum estimate.

Increase Possible in Survivor Benefits From Public-Employer Pensions

The Civil Service Spouse Equity Act of 1984 may lead to increased survivor benefit entitlement for wives of federal employees. However, wives of state and local government employees will not be affected unless state governments pass similar legislation.

Although fewer retired men have public-employer pensions, increased entitlements to survivor benefits in this sector are also possible. About 18 percent of recently retired men in NBS were entitled to pensions from employment in the public sector. Some 13 percent of wives in the survey were entitled to public pension survivor benefits, we estimated, and 5 percent were not.[8] A small additional increase in survivor benefits might be expected from this group as well. But the great majority of men in the survey who did not choose public-pension survivor benefits had state, local, or military pensions that would not have been affected by the 1984 civil service legislation.

Other Reasons Pension Entitlements Could Increase

Additional increases in entitlement to survivor benefits would be possible if more men were to become entitled to pensions in the future. Laws such as REA and the Tax Reform Act of 1986 have attempted to increase workers' entitlement to private pensions. For example, the Tax Reform Act reduced the waiting period required for a worker to become vested (gain ownership) in a pension benefit from most private pension plans. Although this legislation could lead to increases in the percentage of short-tenured workers entitled to private pensions, the benefits they receive would tend to be small and would therefore provide little additional income for surviving spouses. Also, pension coverage may not increase if employment continues to shift out of manufacturing and unionized industries, in which coverage has been high, into service and nonunionized industries, in which coverage has historically been low.[9]

[8]However, men who were entitled to public pensions but not to social security benefits were not represented in NBS.

[9]Between 1979 and 1983, pension coverage appears to have declined slightly among men, according to CPS data. It is unclear whether this decline was due to temporary layoffs of covered workers in the latter year when unemployment rates were high, or whether it represented a trend toward lower coverage. See Emily S. Andrews, The Changing Profile of Pensions in America, Employee Benefit Research Institute, Washington, D.C. 1985.

In the future, elderly widows may become less dependent on survivor benefits. As women with longer work records and higher earnings move into retirement, the percentage receiving pensions from their own employment may increase. About 22 percent of wives of newly retired workers in 1982 were either receiving or expecting to receive pensions of their own. By comparison, a national survey of women ages 45-59, also conducted in 1982, revealed that about 28 percent of married women expected to have pensions based on their own employment.[10] If expectations are realized, these figures suggest a trend toward a higher rate of pension receipt among wives who will be retiring over the next 10 to 15 years. For most widows, however, any income they receive from employer-sponsored pensions will come from survivor benefits.

[10] See Lois B. Shaw, "Looking Toward Retirement: Plans and Prospects," in Midlife Women at Work: A Fifteen-Year Perspective, ed. Lois B. Shaw, Lexington, MA: D.C. Heath, 1986, p. 116.

Widows Will Depend More on Social Security Than on Survivor Benefits

Of wives who could have gained entitlement to private pension survivor benefits, about 36 percent would be receiving less than $100 per month in widowhood had their recently retired husbands chosen a 50-percent J&S benefit rather than a single-life annuity or lump-sum benefit. Another one-third would be receiving $200 per month or more, according to our estimates. The median survivor benefit would be $142 per month. In the lowest third of the income distribution, the median survivor benefit would be only $68.

According to our estimates, income gained from survivor benefits would increase the retirement income of widows by about 12 percent for low-income women, compared with 16 percent for high-income women and 22 percent for middle-income women. Although income gains would often be small, they would contribute to the economic security of some women who would otherwise be only slightly above the poverty line. But increased access to survivor benefits from private pensions would have little impact on the overall poverty rate among widows because most wives who potentially would become poor had husbands who lacked pensions. Even if they had private pension survivor benefits, most low- and middle-income wives would depend on social security as their major source of income if they were widowed.

Pensions From Increased Survivor Benefit Elections Often Would Be Small

What if married men who did not elect survivor benefits had chosen to do so? How much pension income would their surviving spouses receive? Pension plans use a variety of formulas for reducing the monthly benefit from a single-life annuity to cover the cost of the additional years of pension receipt that a survivor benefit usually requires. To estimate potential income from survivor benefits, we employed formulas used by a large actuarial firm.[1]

The median pension amount received by recently retired married men who did not elect survivor benefits was $330 per month, as shown in table 3.1. To provide a 50-percent survivor benefit (the minimum required by REA), the husband's pension amount would have been reduced by $46 per month to $284. In this case, the widow would receive a pension benefit of $142 per month. A reduction of the pension by $86 per month would have given the couple a pension of $244 per month with a 100-percent survivor benefit of $244 for the widow.

[1] This formula adjusts the reduction factor to take into account differences in spouses' ages and the husband's retirement age. The exact formula may be found in app. II.

Table 3.1: Monthly Pension Amounts and Estimated Survivor Benefits by Couples' Income Level[a]

Figures in 1982 dollars

	Median monthly benefit amount, by couples' income level			
Pension option	**Lowest third**	**Middle third**	**Highest third**	**All**
Benefit during husband's lifetime:				
No survivor benefit[b]	$156	$363	$460	$330
If 50% survivor benefit had been chosen[c]	136	322	391	284
If 100% survivor benefit had been chosen[c]	109	278	318	244
Benefit during widow's lifetime:				
No survivor benefit[b]	0	0	0	0
If 50% survivor benefit had been chosen[c]	68	161	195	142
If 100% survivor benefit had been chosen[c]	109	278	318	244

[a]For cases in which the husband did not elect a survivor's benefit. For estimation formulas, see app. II

[b]Actual pension chosen.

[c]Estimate.

Source: *GAO estimates based on NBS data.*

In the lowest third of the income distribution, men who did not elect survivor benefits generally had very small pensions; the median pension size was $156 per month. Thus, the median survivor benefit would be small—only $68 per month. Even with a 100-percent J&S benefit, the median survivor amount would be only $109.

In the middle-income group, widows' median monthly pension from a 50-percent survivor benefit would be $161. A 100-percent benefit would provide $278 per month, but the pension received during the husband's lifetime would have been reduced by $85 per month. In the high-income group, widows' survivor benefits would be larger, averaging $195 per month had a 50-percent survivor benefit been chosen and $318 for a 100-percent survivor benefit.

Of all women whose husbands did not elect survivor benefits, about 36 percent would receive survivor benefits of less than $100 per month had their husbands elected a 50-percent J&S; about one-third would receive $200 or more (see table 3.2). In the lowest income group, however, over 60 percent of women would receive less than $100 per month, and only 7 percent would receive $200 or more. About one-third of these wives would have been eligible for $200 or more if their husbands had chosen a 100-percent benefit. However, such a choice would have lowered the pension amount by about 30 percent during the years when both spouses were living.

Table 3.2: Distribution of Estimated Survivor Benefits by Couples' Income Level[a]

Monthly benefit amount	Couples' income level: Lowest third	Middle third	Highest third	All
If 50% survivor benefit chosen:				
Less than $100	62%	28%	26%	36%
100-199	31	35	25	31
200-399	7	36	41	30
400 or more	0	1	8	3
Total	**100**	**100**	**100**	**100**
If 100% survivor benefit chosen:				
Less than $100	44	16	13	22
100-199	24	18	18	19
200-399	32	44	32	37
400 or more	1	22	37	21
Total[b]	**100**	**100**	**100**	**100**

[a]For cases in which the husband did not elect a survivor benefit.

[b]Totals may not sum to 100 due to rounding.

Source: GAO estimates based on NBS data.

In the middle-income group, about 37 percent of wives would receive a monthly survivor benefit of $200 or more if a 50-percent benefit had been elected; a 100-percent survivor benefit would provide $200 or more to about two-thirds of these women. In the highest income group, nearly half of the women would receive at least $200 per month even with a 50-percent survivor benefit.

The survivor benefits that we estimate husbands could have provided do not necessarily measure net additional income that widows would receive. The smaller pension that couples would receive during the husband's lifetime might cause them to save less, draw down their assets, or reduce or drop life insurance. In this case, the additional income from the survivor benefit would be partially or wholly offset by the widow having less income than she would otherwise have had from assets or a life insurance annuity.

Survivor Benefits Important for Some

For some women, had their husbands elected a 50-percent survivor benefit, the amounts they would receive as widows would make a substantial addition to their total retirement income, providing the added income was not offset by reducing assets. Because we are interested in retirement income rather than preretirement income, our estimates exclude earnings on any jobs held in 1982 and include social security

benefits at the point when the women could be expected to stop working.[2]

According to our estimates of widows' retirement income, the small survivor benefits that could have been gained by women in the lowest third of the income distribution would add about 12 percent to their total income (see table 3.3). For women in the middle-income group, additional income from survivor benefits could be larger; survivor benefits of about $160 per month could increase widows' retirement income by about 22 percent. Potential survivor benefits would be largest for the high-income group, but would represent a smaller addition to widows' income (16 percent) because other kinds of income also would be much larger for this group. For these women, income from assets was estimated to provide $386 per month, and in addition, over 40 percent had or expected to have pensions of their own.

Table 3.3: Potential Sources of Income After Widowhood for Women Whose Husbands Did Not Elect Private Pension Survivor Benefits

	Widow's monthly income, by couples' income level[a]					
	Lowest third		Middle third		Highest third	
Widow's income source	Median amount	Percent receiving	Median amount	Percent receiving	Median amount	Percent receiving
Social security	$499	100	$548	100	$571	100
Wife's pension	b	14	138	30	352	42
Income from assets	24	89	95	95	386	99
Total income[c]	**558**	**100**	**735**	**100**	**1,217**	**100**
Hypothetical pension survivor benefit[d]	68		161		195	
Total income with survivor benefit	**626**		**896**		**1,412**	

[a]Amounts in 1982 dollars; calculated for those receiving income from source listed.

[b]Amount not shown when based on fewer than 25 cases.

[c]Total income includes small amounts from sources not listed. Because of use of medians, amounts may not sum to total.

[d]Estimate of 50-percent survivor benefits from table 3.1.

Source: GAO estimates based on NBS data.

Would increased entitlement to private pension survivor benefits reduce poverty among elderly widows? Even without such survivor benefits, very few widows whose husbands had private pensions would have

[2]For a detailed description of our income estimates and their sensitivity to different assumptions, see app. II.

retirement income below the poverty line, according to our estimates.[3] The great majority of widows who would become poor had husbands who lacked pensions. Therefore, increased access to survivor benefits would have a negligible effect on the overall poverty rate among elderly widows.[4]

Survivor benefits could be more important for widows who had incomes of less than 150 percent of the poverty line (less than $578 per month in 1982). About 22 percent of women whose husbands did not elect private pension survivor benefits would have incomes in this relatively low range after widowhood. The addition of survivor benefits, even the small amounts we observed in some cases, would bring two-thirds of these women above this level.

Social Security to Remain Primary Income Source for Many Widows

Among women whose husbands did not elect survivor benefits, those in the lowest income group, if widowed, would be heavily dependent on social security (see table 3.3). Even had their husbands elected private pension survivor benefits, social security would continue to provide about 80 percent of the retirement income for women in this group. Social security would also provide about 60 percent of the retirement income for widows in the middle-income group. Only in the highest income group would social security benefits represent less than half of widows' income (about 40 percent).

Among women whose husbands did elect private pension survivor benefits, those in the low- and middle-income groups, if widowed, would also receive more than half of their income from social security. Because their husbands' pensions were larger, these women could expect larger private pension survivor benefits than those that might be gained by women whose husbands did not elect survivor benefits (see table 3.4). Nevertheless, social security benefits would represent, respectively, about 70 percent and 58 percent of the income of low- and middle-income women with private pension survivor benefits.

[3]This conclusion applies to the retirement income of widows once they are old enough to begin receiving social security benefits. If they are unable to work, women who are widowed before age 60 might become poor until they reached 60 and began drawing social security benefits.

[4]As previously mentioned, men who died before beginning to receive social security benefits are not represented in our sample. Because low-income men are more likely to die at young ages, widows of these men may be more economically vulnerable than those represented in our analysis. It is possible that private pension survivor benefits (either preretirement or postretirement benefits) might play a larger role in reducing poverty for these widows than for those in our analysis. However, we believe that these men are less likely than NBS men to be covered by private pensions.

Table 3.4: Potential Sources of Income After Widowhood for Women Whose Husbands Elected Private Pension Survivor Benefits

	Widow's monthly income, by couples' income level[a]					
	Lowest third		Middle third		Highest third	
Widow's income source	Median amount	Percent receiving	Median amount	Percent receiving	Median amount	Percent receiving
Social security	$513	100	$557	100	$589	100
Private pension survivor benefit[b]	114	100	200	100	310	100
Wife's pension	[c]	10	158	17	210	28
Income from assets	27	92	110	97	381	100
Total income[d]	**726**	**100**	**965**	**100**	**1,531**	**100**

[a]Amounts in 1982 dollars, calculated for those receiving income listed.

[b]Based on 50-percent survivor benefit.

[c]Amounts not shown when based on fewer than 25 cases.

[d]Total includes small amounts from sources not listed. Because of the use of medians, amounts may not sum to totals.

Source: GAO estimates based on NBS data.

Because men with private pensions were generally employed at relatively high-paying, long-term jobs, they tended to have above-average social security benefits. The major reason that we expect so little poverty among widows whose husbands had private pensions is that social security survivor benefits alone would provide income above the poverty level for the great majority of these women. In fact, only about 20 percent of all wives of NBS men (including those who lacked pensions) would have social security benefits less than the poverty level, and less than 10 percent would actually be poor when other income is taken into account, according to our estimates.[5] However, many women would have incomes that are not far above the poverty level. Any marked decline in social security benefits—as, for example, if benefits were not increased by enough to keep pace with inflation—would cause poverty rates to rise again. In conclusion, our analysis shows that social security benefits will continue to be the major source of income and the major barrier against poverty for many widows.

[5]The low poverty rate estimated for widows of NBS men should not be regarded as a prediction of the future poverty rate of all elderly widows for several reasons: (1) widows of men not represented in the sample will probably have a higher poverty rate than those in the sample for reasons mentioned previously (see footnote 4); (2) as they grow older, some women may lose income as pensions fail to keep up with inflation or large medical expenses cause loss of assets; and (3) different men in NBS have differing mortality risks, and low-income wives may enter widowhood at a greater rate than those with higher incomes.

Comparison of the New Beneficiary and Current Population Surveys

Because the Social Security Administration's 1982 New Beneficiary Survey covered only persons who were newly entitled to social security benefits, an exact comparison with the Bureau of the Census' Current Population Survey is not possible. However, one SSA publication based on CPS data, Income of the Population 55 and Over, 1982, permits comparisons of NBS participants with CPS participants age 62-64 receiving social security benefits in the same year. These two populations are not exactly the same because NBS participants had begun receiving benefits in 1980-81 and had already received benefits for a full year by 1982. Many CPS participants, especially those age 62, would have begun to receive benefits within the previous year. In addition, the only persons in the NBS sample of married men who were age 62 in 1982 were men who began receiving benefits before age 62 as disability recipients.

The two sources agree closely on total income and on the percentages of couples reporting receipt of a private pension (see table I.1) CPS shows smaller median social security and private pension benefits than does NBS, perhaps because part of the CPS sample began receiving these kinds of benefits during the year and therefore reported smaller total amounts for the year. However, the difference in pension amounts may be too large to be explained by this factor alone. It is also possible that income from this source is reported more accurately on a monthly basis, as in NBS, or that the NBS sample overrepresents or the CPS sample underrepresents persons with large pensions.

NBS couples are much less likely than CPS couples to report income from earnings. Two factors could explain most of this difference. As previously mentioned, the CPS sample contains more individuals who could be recently retired and therefore would report earnings for the previous year. The NBS sample reports income for 3 months only (the figures are annualized in table I.1). If either the respondents or their spouses were employed seasonally, they would be less likely to report earnings for any 3-month period than for the entire year. CPS, which asked about earnings for the entire year, therefore would report more couples with earnings.

CPS is known to underreport some kinds of income, including income from assets and private pensions. NBS appears to report larger amounts of both kinds of income than does CPS.

Table I.1: Income Amounts Reported in NBS and CPS, Compared for Married Couples Age 62-64 (1982)

Income source	Median annual dollar amounts according to CPS[a]	NBS
Amount of income from:		
Social security benefits	$5,540	$6,240
Private pension	3,990	5,160
Assets	1,280	1,600
Total income[b]	**16,320**	**16,270**
Percent reporting income from:		
Private pension	39	39
Earnings	55	40

[a]Source: SSA, Income of the Population 55 and Over, 1982, March 1984. Median pension and asset income for all married couples; other figures for social security recipients only.

[b]Includes other sources in addition to those shown.

Estimation of Wives' Survivor Benefits and Future Income

Survivor Benefit Estimates

To estimate the size of the survivor benefit that might have been provided had the husband chosen a J&S benefit instead of a single-life annuity, we employed a formula used by a large actuarial firm that manages many pension plans. The formula used for a 50-percent J&S pension was:

Joint amount (during husband's lifetime) = single life x
(.875 − .005 (husband's age − wife's age)
+ .005 (65 − husband's age))[1]

The wife's survivor benefit would be half of the joint amount.

For example, a 63-year-old husband with a 60-year-old wife would receive a pension during his lifetime that would be .87 times the single-life annuity, calculated as follows:

.875	
−.015	for 3-year age difference
+.010	for 2 years under age 65
.870	

The wife's survivor benefit would be .435 times the single-life annuity. If instead the wife had been 3 years older than the husband, the joint amount would be .90 times the single-life annuity, and the survivor benefit would be .45 times the single-life annuity, in recognition of the wife's shorter life expectancy.

The formula used for the 100-percent J&S was:

Joint amount (during husband's lifetime) = single
life x (.75 − .01 (husband's age − wife's age)
+ .01 (65 − husband's age))

Various formulas and, in some cases, detailed tables not readily summarized are used by different pension plans. Some companies subsidize the J&S option (offer it at less than the expected additional expense). We believe that our estimates fall within the range of formulas commonly in use.

[1] The maximum benefit available is .995 x the single-life amount.

Income Estimates

In assessing the importance of survivor benefits, income estimates that are too low will lead to overestimates of the importance of survivor benefits, whereas income estimates that are too high will lead to underestimates of the importance of survivor benefits. Because we do not want to underestimate the contribution of survivor benefits to widows' income, the income estimates shown in chapter 3 use assumptions that could result in underestimating widows' income (thus overestimating the importance of survivor benefits). However, as shown later, assumptions that result in higher estimates of total income lead to only minor variations in our assessment of the importance of survivor benefits.

The wife's age at widowhood will affect her retirement income. Unless they are severely disabled or have children under age 16, women widowed before age 60 are not immediately eligible for social security benefits. Because social security survivor benefits are permanently reduced if receipt begins between age 60 and 65, women will tend to receive larger benefits, if they are widowed at age 65 or later.

Our report is concerned primarily with the economic status of elderly widows. Our basic estimates, therefore, reflect widows' eventual retirement income. Our basic estimates assume that the NBS wives were widowed shortly after the 1982 interview. If they were already receiving social security benefits as dependents or retired workers in 1982, the survivor benefit was calculated as of that date. Unless they had earnings that would be subject to the social security earnings test, women who were old enough to receive benefits, but were not already receiving them, were also assigned survivor benefits as of 1982. If they were subject to the earnings test, they were assumed to begin receiving benefits at age 62 if younger than 62 and at age 65 if older than 62. Women who were under age 60 were assumed to begin receiving benefits at 60 if not employed and at age 62 if employed.[2] These assumptions provide relatively low estimates of social security benefits, while not requiring that employed women retire immediately when widowed.

As an alternative, higher-bound estimate, we calculated social security benefits if widowhood occurred at age 65 (or the wife's age in 1982 if she was older than 65 at that time). In both estimates for women receiving retired-worker benefits in 1982, we assigned the larger of the survivor benefit from the husband's account or the retired worker benefit from her own account. For wives who had never applied for social

[2] In 1982, about 26 percent of NBS wives were already 65, 46 percent were 60-64, and 28 percent were under 60.

security benefits, we assigned the survivor benefit amount. In a few cases where the husband's benefit was small, the wife's own retired-worker benefit may eventually be larger than the survivor benefit; if so, the social security benefit is underestimated.

Because we wanted an estimate of eventual retirement income, we did not include the wife's 1982 earnings. If she had her own pension in 1982 or expected a pension later, an estimate of her pension was included. Usually, we obtained this amount directly from the NBS data tape, but in some cases with missing data, we imputed the average pension amount for women in the same income category.

Income from assets was assumed to continue at the level reported in 1982. However, for couples reporting assets other than a home but no income from these assets, income was imputed at a 6-percent rate of return per year.

Other sources of income that commonly continue paying benefits to surviving spouses, such as workers' compensation, railroad retirement, and payments to victims of black lung disease, were included in total income, but were not shown separately. A few husbands with private pensions also had public pensions with survivor benefits; in these cases an estimate of the public pension survivor benefit was also included in total income. Means-tested payments, such as Supplemental Security Income, veterans' compensation, and other welfare benefits, were not included. Thus, the income figures represent an estimate of income that would be available to widows in the absence of any welfare program.

To see how sensitive our estimates were to various assumptions, we made several alternative estimates, shown in table II.1. Our basic income estimates, using the assumptions just described (which are the chapter 3 estimates), are shown in the first entry for purposes of comparison.

Table II.1: Income of Widows Whose Husbands Did Not Elect Private Pension Survivor Benefits, Estimated According to Various Assumptions

Income and age of widowhood assumption[a]	Widows' median income by couples' income level (1982 dollars) Lowest third	Middle third	Highest third
In 1982, retirement income (ch. 3 estimates)	$558	$735	$1,217
In 1982, immediate income	550	733	1,371
At age 65	626	778	1,248
At age 65, with life insurance	664	851	1,378

[a]For details, see text.

Source: GAO estimates based on NBS data.

In contrast to the first entry, which represents eventual retirement income, the second entry shows the immediate income available had widowhood occurred in 1982. In the event of widowhood at this early date, many women would still be employed; thus, we assumed that earnings reported in 1982 would be a part of their immediate, short-term income. Women already receiving pensions of their own were, of course, assumed to continue to receive income from this source. Social security survivor benefits were calculated by assuming that the widow began to receive a benefit immediately if she was old enough. But the survivor benefit was reduced if projected yearly earnings would be above the earnings test limit.

For low- and middle-income women, the immediate income estimate was very close to the retirement income estimate. These estimates imply that, on average, the loss of earnings by employed women after retirement would be offset by the social security benefits gained by employed women and women under age 60 in 1982. However, the median immediate incomes conceal incomes that are below the poverty level for women under age 60 in 1982, whereas few of these women will be poor once they reach 60 and can claim social security benefits. For the high-income group, women's earnings were larger enough to make income available in early widowhood greater than the income they could ultimately expect once they retired.

The third entry in table II.1 shows retirement income if widowhood did not occur until age 65 or later. Differences between retirement income for early and late widowhood (lines 1 and 3) reflect differences in social security benefits depending on the age when benefits begin to be received.

In the fourth entry, we added to the third line an estimate of income that might be available from life insurance received at the husband's death. According to the 1986 Life Insurance Fact Book, the average amount of insurance carried by families in which the head of household was retired was $15,000. In addition, life insurance amounts are shown to increase with income. We therefore imputed a 6-percent yearly return on $15,000 to middle-income families in which the husband reported having life insurance. Low-income families were assumed to carry half of the average amount, and high-income families twice the average amount. Although these are crude estimates, the alternative is to ignore what may in some cases be an important source of income.

Differences between our lowest and highest income estimates ranged from about $100 for low-income women to about $160 for high-income women. If we had employed our highest income estimates instead of those in the first entry, our estimates of the increase in income that survivor benefits might contribute would be 10, 19, and 14 percent for the low-, middle-, and high-income groups, respectively, as compared with the estimates of 12, 22, and 16 percent reported in chapter 3.

One potential source of income that we did not consider is equity in the home. About 87 percent of recently retired worker families had this asset; the median amount was $47,000. Even in the lowest third of the income distribution, 79 percent of couples had some equity in a home—the median amount was about $35,000. Even if the home is not sold, the value of having a rent-free or low-expense dwelling will contribute to economic well-being.[3] Including an estimate of income from home equity would have the effect of increasing the size of our income estimates and decreasing the estimated importance of both survivor benefits and social security.

Obviously, individual cases will deviate from the income amounts we estimated because of unforeseeable circumstances, such as large medical expenses, inheritances from other family members, and our inability to determine whether a widow might be entitled to other income sources we could not consider. Unless the circumstances tending to decrease income are much more common than those tending to increase it (or visa versa), our median estimates will be reasonably accurate. It is also uncertain whether losses or gains in income predominate as people move from the early retirement years to extreme old age. Our estimates do not attempt to correct for factors, such as inflation, that might reduce the value of pensions and other income sources over time.

[3]A discussion of various plans for converting home equity to current income may be found in Retirement Income for an Aging Population, Committee on Ways and Means, U.S. House of Representatives, 1987.

Logit Analysis of Factors Influencing the Choice of Survivor Benefits

A regression analysis is a statistical technique for determining which factors have a significant influence on an outcome, such as choice of a survivor benefit. All the factors to be tested are entered into a prediction equation simultaneously. In some cases, factors that might seem to be important in a simple tabular analysis are shown not to have a significant impact when other factors are controlled for. Conversely, some factors that do not appear significant in tabular analysis actually might be so.

In studying factors influencing the choice of a survivor benefit, we recognized two possible outcomes: either a survivor benefit was chosen, or it was not. When the outcome variable has only two categories, a logit model (a type of nonlinear regression analysis) is one of the preferred methods to use. (See Ronald J. Wonnacott and Thomas H. Wonnacott, Econometrics, New York: Wiley & Sons, 1979, pp. 131-134.)

Table III.1 presents the equation providing the best fit of our data among several equations of this type that we estimated. In this equation, we used the following variables: (1) the percentage of the widow's total income that the survivor benefit would represent—a measure of the importance of the survivor benefit for the widow; (2) the couple's current income; and (3) several variables controlling for the date pension benefits began and the husband's age at that date.

Table III.1: Logit Equation for Factors Influencing Choice of a Survivor Benefit

Factor	Coefficients	t-statistics
Couple's income in 1982[a]	.006	2.41
Survivor benefit as a percent of widow's income[b]	.025	8.57
Pension began before 1974	−.401	−1.89
Pension began 1974-78	−.071	−0.62[c]
Age of husband when pension began	.030	2.18
Constant term	2.886	3.28
Chi-Square	1681.975	

[a]Couple's income had survivor benefit been chosen.

[b]Based on 50-percent survivor benefit and first estimate of widow's retirement income, as described in app. II.

[c]Not statistically significant at .05 level.

Source: GAO estimates based on NBS data.

From our analysis it appears that the decision about choosing a survivor benefit was strongly influenced by the importance of such a benefit for the wife's future income if widowed: the larger the proportion of future

income the survivor benefit would provide, the more likely it was that the survivor benefit would be chosen. The size of the couple's current income also influenced the choice of a survivor benefit, though not as strongly. The probability of choosing a survivor benefit increased with the husband's age and was lower for husbands who began receiving their pensions before 1974. Using this equation to estimate the proportion of men who would choose a survivor benefit in various circumstances, we find that at a monthly income of $1,000, 46 percent of men would be expected to choose a survivor benefit if it would provide only 5 percent of their spouse's income in widowhood. But 74 percent would be expected to choose a survivor benefit if it would provide 30 percent of the widow's income. The comparable figures for a couple with monthly income of $3,000 would be 52 and 79 percent.[1]

[1]These results were calculated for a man who began receiving a pension in 1980 at age 62.

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